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Diversification Planning

By: All A+ Essays



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THIS IS A DISCUSSION BOARD ONLY NEED 300 WORDS, THIS IS NOT A LONG PAPER!! Read the incident in the Diversification Planning document (SEE BELOW). In your post, indicate which action from the list of 13 possibilities you would recommend spending money to investigate and your rationale for





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recommending it. Also, identify the ethical implications of your recommended action. The planning officer of your airline has been gathering information concerning several opportunities for your firm. Since the climate seems good for additional common stock sales and bank loans, the possibilities of





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expansion through merger and acquisition seem very good. An opposite twist has also presented itself—an offer to purchase your airline. A thorough investigation and analysis by a competent financial analyst specializing in such matters will cost \$3,000 for each item listed below and will be

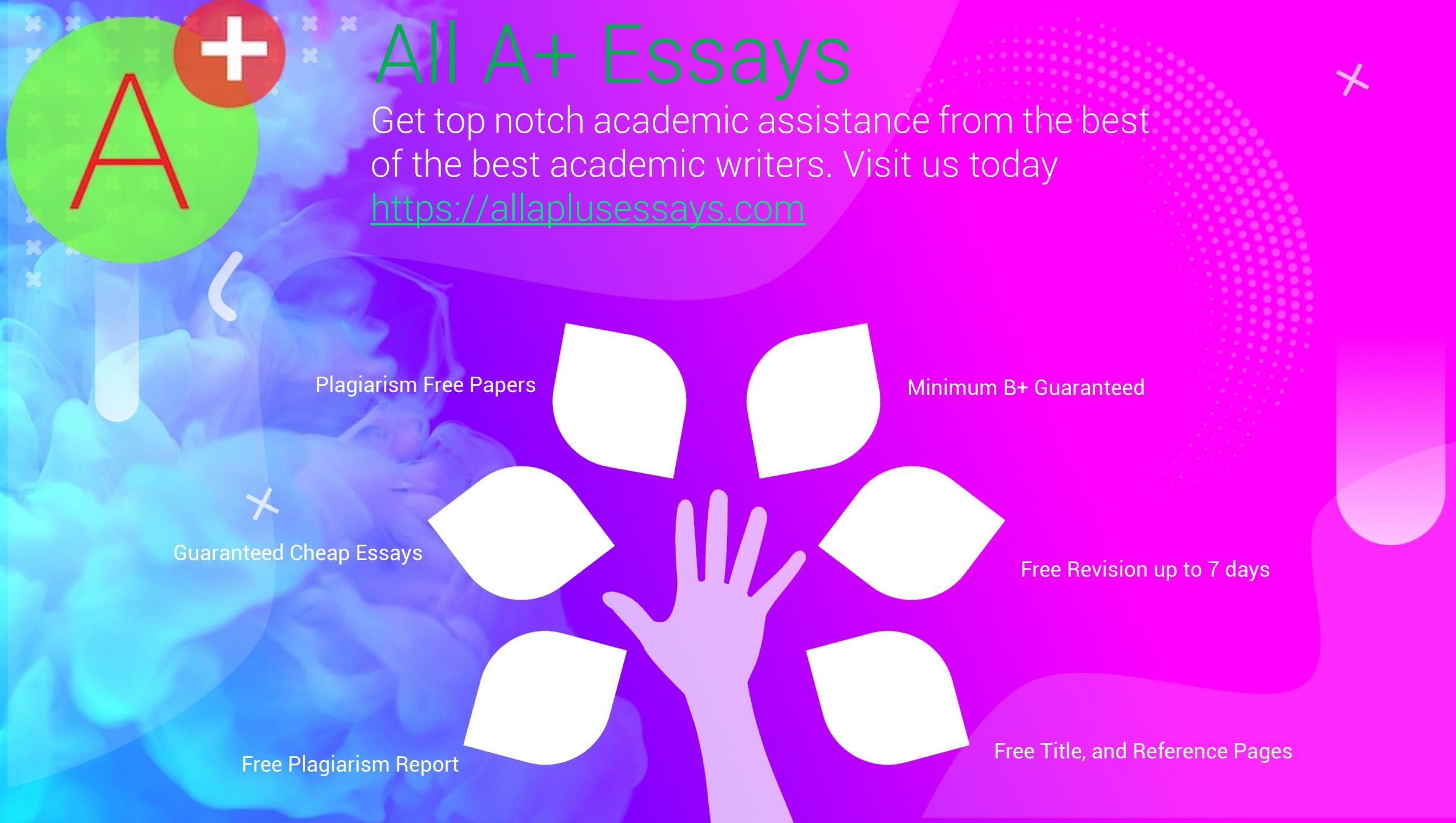




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completed in three to nine months (with the exception of selection M which costs \$6,001). This would be a necessary first step in pursuing any of these business opportunities. Although these opportunities may not be possible before the end of the simulation, your instructor wants you to determine





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economic stability of that particular type of business, the difficulty in operating it, competition, and the profit potential.

Acquire a food service company that serves several airlines. It is located in the airline's largest hub. The cost is \$500,000 and the Return on Investment





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(ROI) is estimated to be in the 12-20% range with a risk factor of 5. Go into the car rental business at one of your high-traffic cities. The facts are the same as presented in Incident: "Diversification—Auto Rental" except it is in a different city than depicted in that incident. Risk factor 5. Begin





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a new company that would refurbish commuter aircraft. Due to the increasing cost of new aircraft, it is felt that many airlines would be interested in rebuilding and refurbishing their current fleet instead of purchasing a new fleet. The cost would be \$2 million and the



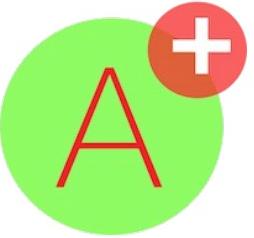


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ROI is estimated to be in the 15-28% range with a risk factor of 6. Acquire a ground service business that serves eight cities, including three that you are currently serving. This type of business handles all baggage, refueling, interior cleaning and restocking of rest



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of your markets. The firm is operated efficiently and has seven Metroliners and one Jetstream; all aircraft and facilities are leased. The owner wishes to retire and is asking \$2 million with liberal credit terms. ROI estimate 20-30%; risk factor is 7. Purchase a building for





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the firm's offices in a renovated downtown building with a prestigious address. A ten-year, 6% historical development loan is available. Cost \$300,000. Savings in rent would be \$30,000 per year. Open a Fixed Base Operation (FBO) at one of your hub cities. An FBO fuels and maintains





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airline, business, and private aircraft; rents, leases, and sells aircraft. The facility could also serve as a minor repair station for your aircraft. The cost is \$1 million and ROI 10-33%. The risk factor is 5. Open a training facility for airline pilots. The center would specialize in offering the

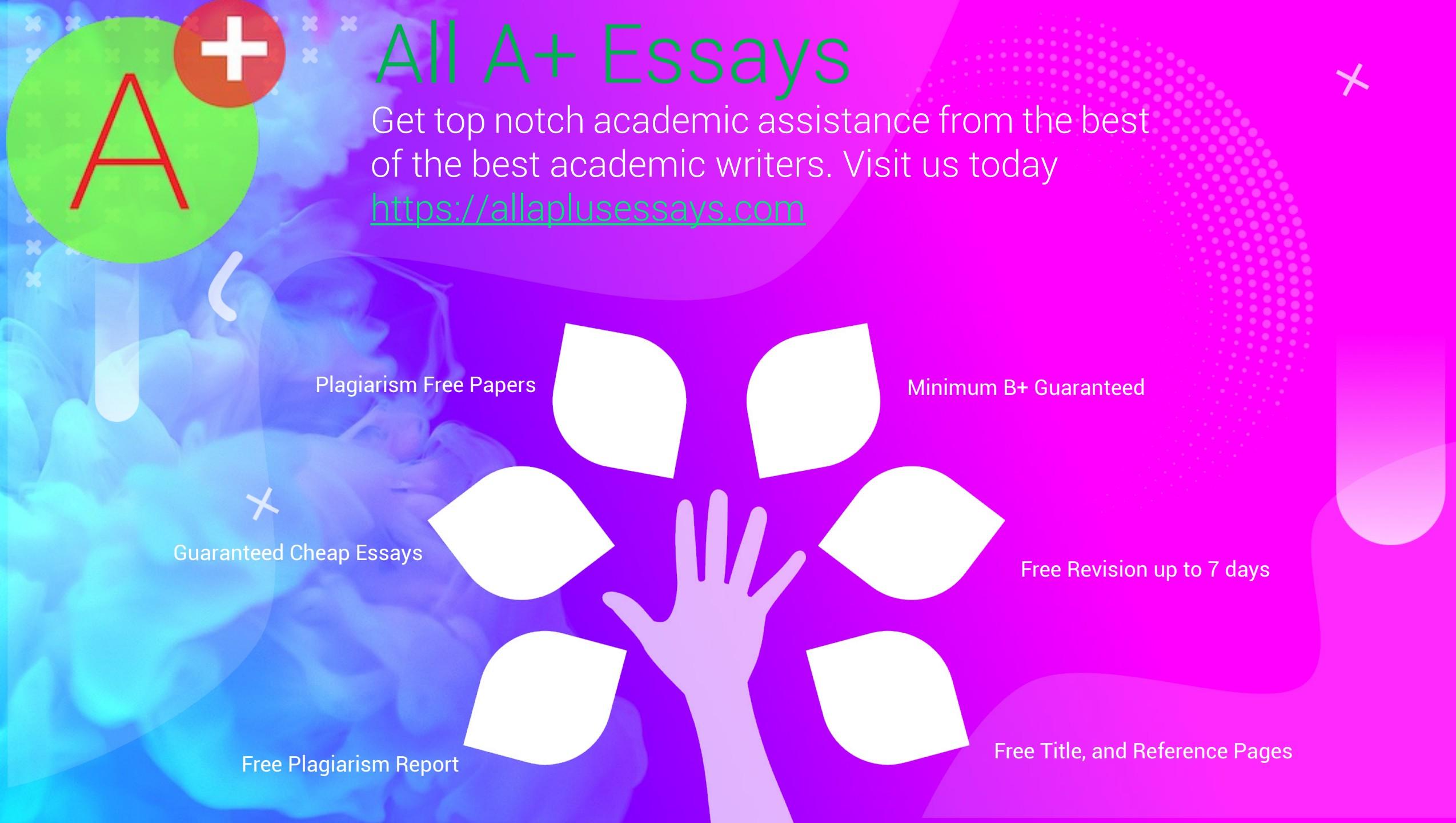




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recurrent training required by the FAA to smaller airlines that cannot afford a facility of their own. A modern simulator would be acquired, which would be very enticing to many airlines. This diversification would allow your own pilots to train with the very latest technology. The cost would be





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the business (crew training, additional maintenance facilities and equipment) is \$300,000. The ROI is 20% and the risk factor is 3 to 4. Become the regional distributor for a new 19-passenger airliner built in Spain. It is a cabin class, pressurized, propjet aircraft with a restroom. The aircraft's





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strong features are its luxurious interior design and state-of-the-art cockpit. The manufacturer is willing to lease one of the aircraft to you to put in service and concurrently serve as a demonstrator for \$72,000 per quarter. The aircraft sells for \$4.2 million with a sales commission of 5%. The





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cost of establishing a sales office, critical parts inventory, and first-year marketing expenses is \$250,000. The ROI could be negative or as high as 1000% if a large order is obtained. The risk factor is 7-8. Refurbish waiting areas in all cities served with a new, upbeat motif, including new





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counters, signs, and furniture. Cost: \$20,000 per city. This cost would be to conduct a market research study to ascertain whether passengers really care about waiting-area ambiance. Investigate the possibility of self-insuring all aircraft for any damages to the aircraft itself. Liability insurance





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years. Hull insurance premiums average \$5,000 per year per aircraft. Make a recommendation to the board of directors to accept or reject the offer of a large conglomerate to purchase all the common stock of your airline at 20% above market price. Each member of the management





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team would receive a "golden parachute" contract that paid \$100,000 if involuntarily separated from the firm. NOTE: The fee for analyzing this proposal is \$3,001. Support your assertions with at least one APA in-text citation. 300 WORDS- 1 REFERENCE. Attachments Question Field





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